

The impact of bank health on coordination among creditors

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Abstract

We investigate how the health of the relationship bank affects the coordination between a relationship bank and other creditors and examine how the *ex post* coordination problem affects the *ex ante* efficiency of firm's action. We show that, firstly, as the relationship bank becomes distressed, it wants the firm to take a risky action while other investors want the firm to take a safe action, and thus the coordination problem arises at the interim period. Therefore, the bad health of the relationship bank induces the inefficient liquidation of the firm's project and reduces the *ex post* efficiency. Secondly, the *ex post* inefficiency also reduces the *ex ante* efficiency of the firm's action because the high interest rate payments to the relationship bank and investors urge the firm to choose an inefficient risky project.

- Key words: coordination failure, heterogeneous bank financing, global game
- JEL Classification Codes : G21, G33.

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